

Predatory Lending



“To borrow money is a very important decision; one that requires our serious consideration.”

WHAT IS PREDATORY LENDING AND WHY DOES IT OCCUR

What is predatory lending?

Predatory lending describes the practice of making unfair loans to consumers. These loans are often secured by the consumer's home which will then be taken away by the lender once the consumer fails to make timely loan payments.

Why does it occur?

There is so much complex paperwork and reading required when borrowing money that most consumers become overwhelmed and confused. Because most consumers are seeing these confusing terms for the first time, lenders (who have a complete understanding of the contract terms and their consequences) can easily include predatory terms in the contract without the consumer's knowledge.

WHAT IS A PREDATORY LOAN?

There are many different types of predatory loans. Generally a loan is predatory when the terms of the loan require the consumer to:

- Pay too much money up-front to get the loan (costs, points, and fees)
- Pay too high an interest rate on the loan (yearly interest rate and/or APR)
- Not receive any real monetary benefit from the loan
- Pay for unnecessary items
- Make unreasonably high monthly loan payments in relation to the consumer's monthly income
- Falsify information or make untrue statements.

WHAT IS A PREDATORY LOAN?

Continued

BE CAUTIOUS!

- Lenders will only write a loan if it will make them money.
- There are hundreds of places within the loan paperwork where lenders can hide costs.
- It is important that you understand all of the terms you are agreeing to.
- You should not feel pressured into signing a loan.
- You are allowed to review paperwork away from the lender and with someone you trust.

SHOP AROUND

- There are many lenders, and it is important that you shop around in order to select the one who will give you the best loan.
- To borrow money is a very important decision and requires our serious consideration.

AVOIDING DANGEROUS LOANS

GENERAL TIPS

- Do not be pressured to buy something!
- Never sign something that you do not understand.
 - Have important documents translated or explained by someone you trust.
- Avoid using your house or car title to secure a loan.
 - You may end up losing it if you cannot make a payment.
- Credit unions or banks may offer small, short-term loans to their customers at reasonable rates.
- A local community group may be able to help you find other solutions.

GENERAL TIPS

Continued

Is Rent-to-Own a Good Deal?

Rent-to-own offers may sound good, but can be terrible and costly traps. Typically, in rent-to-own situations, you will pay two-to-five times more than the cost of the same item purchased outright. For example, a rent-to-own TV may cost \$9.99 per week for 78 weeks; so the renter ends up paying \$779 for a TV priced at \$196 in the store. If you miss a payment you could lose the item and all of the money you already paid towards owning it. There is an alternative. Save your money to buy what you need, pay for an expensive item in three or four installments, or take out a small, short-term loan.

Establishing a Credit History

It is important to have a good credit history so you can qualify for a loan when you need it; but, some types of loans create more problems than they solve.

Why Should I Avoid Payday Loans?

- Some stores give you small cash advances if you write them a check from your checking account.
- The store holds your check until your next pay day and then cashes it; for a two-week payday advance, however, you will typically pay \$15 for every \$100 you borrow.
- If you borrow often or cannot pay off these advances, you could owe many times more in fees than you actually borrow.

Nine Signs of a Predatory Payday Loan

1. Triple digit interest rate

Payday loans carry low risk of loss, but lenders typically charge fees equal to 400% APR and higher.

2. Short minimum loan term

75% of payday customers are unable to repay their loan within two weeks and are forced to get a loan "rollover" at additional cost. In contrast, small consumer loans have longer terms (in NC, for example, the minimum term is six months).

3. Single balloon payment

Unlike most consumer debt, payday loans do not allow for partial installment payments to be made during the loan term. A borrower must pay the entire loan back at the end of two weeks.

4. Loan flipping (extensions, rollovers or back-to-back transactions)

Payday lenders earn most profits by making multiple loans to cash-strapped borrowers. 90% of the payday industry's revenue growth comes from making more and larger loans to the same customers.

5. Simultaneous borrowing from multiple lenders

Trapped on the "debt treadmill", many consumers get a loan from one payday lender to repay another. The result: no additional cash, just more renewal fees.

Nine Signs of a Predatory Payday Loan

Continued

6. No consideration of borrower's ability to repay

Payday lenders encourage consumers to borrow the maximum allowed regardless of their credit history. If the borrower cannot repay the loan, the lender collects multiple renewal fees.

7. Deferred check mechanism

Consumers who cannot make good on a deferred (post-dated) check covering a payday loan may be assessed multiple late fees, NSF check charges, or fear of criminal prosecution for writing a bad check.

8. Mandatory arbitration clause

By eliminating a borrower's right to sue for abusive lending practices, these clauses work to the benefit of payday lenders over consumers.

9. No restrictions on out-of-state banks violating local state laws

Federal banking laws were not enacted to enable payday lenders to circumvent state laws.

Predatory Lending

The following are tactics that can be considered predatory:

- High-pressure and misleading sales pitches.
- Excessive fees and interest rates beyond what is necessary to cover the risk and make a profit
- “Packing on” or requiring unnecessary products that are included in the loan balance.
- Large prepayment penalties that are intended to trap the borrower in an unfavorable or unaffordable loan.
- Payments that increase over time and have unrealistic repayment terms.
- Loan flipping or frequent refinancing with fees folded into the loan balance that results in rising loan balances and decreases the equity in your loan.
- Aggressive and abusive collection practices.

PREDATORY LENDING

BE SURE TO STOP, LOOK, AND LISTEN FOR:

Loan Gimmicks

- Such as many (reputable) stores that offer you their interest-free and no payment-yet loans.
- Some lending offers from vocational schools.

Credit Card Offers

- Why are you receiving them? Especially when you didn't request the information or the offer?

Pay-Day lending and check services

- Stop-look-listen and be aware that some pay-day lending and check cashing services are respectable and some are predatory.

HERE ARE SOME QUESTIONS TO ASK ABOUT LOANS

- Does the interest rate change over time?
- Are there fees for this service?
- What is the cost of the interest that I will pay by the end of the loan period?
- Are the loan documents available in my primary language?

IS THIS A PREDATORY LOAN OFFER?

Dear Homeowner:

Do you want extra cash? **AAA Lender** can help you get the money you have been hoping for. Our free services have already helped thousands of homeowners get low interest loans to consolidate bills and get out of debt.

We are a top-rated professional referral agency, and our mission is to provide homeowners, such as you, with carefully selected lenders. We use the best networks of affiliated mortgage banking companies in the country! We have hundreds of lenders across the United States ready to meet your individual needs.

We can provide you with lenders who will loan you up to 125% of your home's value!

Best of all, our lenders offer the lowest interest rates available and they can set you up with an incredibly low monthly payment!

There are no upfront fees! This means you won't pay a dime, so you have absolutely nothing to lose! You may qualify for up to 125% of the value of your home or \$100,000, even if you have no equity in your home, even if you have a bad credit history.

Here are just some of the ways you could put this cash to use:

home improvements

credit card debt

college tuition

dream vacation

new car

start your own business, or

whatever else you need

You owe it to yourself to request your free loan evaluation. It's free and you have nothing to lose. Call us now and find out how easy it is. Act now, because this is a limited time offer.

Your loan can be approved within 24 hours, and you can have the cash in your hands within 1-to-2 weeks!

Sincerely,

AAA Lender

Thank you.

belong to something better[®]